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MANUFACTURERS HANOVER

Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

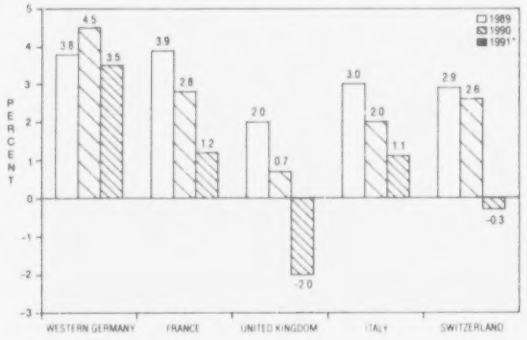
European Economic Growth Slows Sharply

Preparations for the single European market in 1992 sparked a surge in investment during the late 1980s, resulting in robust economic growth for most of the Western European economies at the end of the last decade. However, with 1992 less than a month away, investment in many of these countries is plunging, joblessness is rising rapidly and consumers aren't spending. As a result, European growth has slowed substantially this year, while several countries, including the United Kingdom, Switzerland and Sweden are mired in recession. Shrinking tax revenues and increased unemployment-related outlays, in turn, are straining government finances, causing budget deficits in most countries to widen again after several years of improvement.

Although some of the economic slowdown can be attributed to the effects of the Persian Gulf War, a much greater factor has been the sharp tightening of monetary policy by most European central banks at the end of the 1980s. The monetary authorities in the United Kingdom and Switzerland were forced to aggressively hike interest rates in order to curb rapidly accelerating inflation rates following excessively expansionary monetary policies after the global stock market crash in 1987. At the same time, central banks in such countries as Italy, Spain and Portugal imposed a tight monetary stance in order to converge their inflation rates with those of the lower inflation rate countries belonging to the European Monetary System (EMS) in preparation for economic and monetary union in the European Community.

With the uncertainty that surrounded the Gulf War over, oil prices lower and inflation rates on a downward trend in most countries, however, interest rates were supposed to come down throughout Europe during the second half of this year, sparking an economic recovery by late 1991. But this hasn't happened. Interest rates have stayed high and in some countries have actually risen, causing economic growth to slow even further. As a result, economists are adjusting downward their economic growth projections for both this year and 1992. Western Europe's real GDP is now expected to expand by barely one percent this year, compared with earlier estimates of around 1½ percent and real rates of growth of 2.8 percent last year and 3.3 percent in 1989.

REAL GDP GROWTH IN SELECTED COUNTRIES
(ANNUAL PERCENT CHANGES)



*Estimates
Sources: IFS; MH

Bundesbank Keeps Interest Rates High

What went wrong? The main factor that has delayed economic recovery in Europe this year has been the Bundesbank's extremely restrictive monetary policy, which, in turn, has forced other European central banks to keep their interest rates high in order to defend the value of their currencies against the Deutschemark. Determined to prevent the rising costs of German unification and hefty wage settlements from fueling inflation, the Bundesbank has maintained an extremely tight monetary stance over the past year. Indeed, with money supply growth approaching the top of the central bank's three to five percent target range and the inflation rate currently at an unacceptably high 4.2 percent and expected to reach five percent by the middle of next year, the Bundesbank has repeatedly insisted that it has no scope to cut interest rates, at least in the short term. In fact, another round of monetary tightening over the next few months is more likely than not, especially if pay increases above six percent continue to be awarded.

And things could get worse before they get better. This year at least, the dampening effect of high interest rates on European economic growth has been partially offset by the stimulative effect of surging German demand for im-

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ports from the rest of Europe. But, this may end soon. The Bundesbank's severe monetary squeeze—combined with tax increases implemented in July—has already taken a toll on German economic growth, and the economy is expected to slow even further next year. While most economists are expecting a western German economic growth rate of around two percent next year (down from 3½ percent in 1991), fears are beginning to mount that if excessive wage settlements prompt another round of Bundesbank tightening, the economy could slip into recession in 1992. But even if economic growth remains positive, the sharp slowdown will cut import demand substantially, removing a major stimulus for European economic growth.

Stalled U.S. Recovery Strengthens Mark

The Bundesbank's tight monetary stance is not the only thing keeping European interest rates high this year, however. The stalled economic recovery in the United States is also partially to blame. This is because doubts about the U.S. recovery have prompted international investors to sell dollars and buy German marks in the foreign exchange markets. Increased demand for marks, in turn, has created strains within the EMS, causing the other member currencies to weaken against the mark. Even without Bundesbank tightening, the central banks of France

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/27/91)	171,103	+ 304	- 34,946
New York City (12/4/91)	29,929	+ 703	- 5,360
Commercial Paper (12/4/91)	532,046	+ 2,222	- 26,606

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/27/91)	294,527	- 717	- 22,946
New York City (12/4/91)	52,672	- 629	- 5,644

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/27/91)	1,008,224	- 1,769	- 9,469
New York City (12/4/91)	167,801	+ 384	- 11,183

Financial Markets

	Friday 12/13/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	4.24%	- .09	- 2.81
180-Day Bills†	4.31	- .06	- 2.76
Longest Bills†	4.42	- .08	- 2.66
Recent Issues:			
5⅛s 11/30/93	5.07	- .12	
6⅛s 11/30/96	6.29	- .01	
7⅛s 11/1/01	7.22	- .04	
8s 11/15/21	7.80	+ .02	
Municipals:			
Bond Buyer—20 Bond Index* (12/13/91)	6.71%	- .09	- .34
Blue List Total ($ Million)	$1,522	- $ 170	+$ 379
30-Day Visible Supply ($ Million)	$2,638	- $2,014	+$1,174
Total	$4,160	- $2,184	+$1,553
Corporates:			
Moody's Aa Composite (12/13/91)	8.65%	- .08	- .67
30-Day Visible Supply ($ Million)	$ 700	+ $ 450	+$ 400
Stocks:			
Dow-Jones Averages:			
Industrials	2,914.36	+ 27.96	+320.54
Transportation	1,218.80	+ 20.18	+315.68
Utilities	217.70	- 3.44	+ 9.13
65 Stocks	1,063.63	+ 8.22	+153.63
N.Y.S.E. Composite Index	211.90	+ 2.16	+ 35.19
N.Y.S.E. Avg. Daily Vol. for Week (000's)	192,078	+ 6,994	+34,360

*34% Taxable equivalent 10.17%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/13/91	Week Ago
Overnight	4.44%	4.56%
1 month	4.75	5.00
3 month	4.44	4.63
6 month	4.44	4.63
1 year	4.50	4.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/13/91)	Currency Per U.S. $	Week Ago
Belgium	32.74	32.46
Canada	1.1430	1.1388
France	5.4350	5.3845
Germany	1.5908	1.5740
Italy	1199.00	1191.50
Japan	129.05	128.35
Mexico	3059.00	3091.20
Netherlands	1.7920	1.7755
South Korea	745.25	740.92
Switzerland	1.4035	1.3935
Taiwan	25.47	25.46
U.K.*	1.8145	1.8091

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (12/13/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/
	-0.2%	-12.4

and Italy were forced to raise domestic interest rates last month in order to maintain the value of their currencies versus the mark.

At the same time, the Soviet Union's severe economic problems are having repercussions on interest rates in the Scandinavian countries. Because a large part of Finland's trade was with the Soviet Republics, their economic collapse sparked a currency outflow from Finland last month, driving up interest rates and prompting the government to devalue the markka. This, in turn, triggered an outflow of currency from Sweden, causing the central bank to raise its key interest rate by six full percentage points this month in an effort to defend the krona. Market nervousness has also spread to Norway, placing upward pressure on Norwegian interest rates at the moment.

So with interest rates on an upward trend in much of the continent, Western Europe will likely continue to struggle with slowing economic growth, rising unemployment and widening budget deficits, at least through the first half of next year. This, combined with delayed economic recovery in the United States and Canada and a more rapid than expected economic slowdown in Japan, spells some difficult times ahead for the entire industrial world.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/11/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	275.75	+ 2.324	+27.062
Loans to Depository Inst.	.138	+ .058	+ .015
Float	.802	- .418	+ .310
Total Reserve Bank Credit	309.281	+ 2.382	+20.236
Treasury Deposits with Federal Reserve Banks	5.191	- .730	+ 1.043
Currency in Circulation	303.296	+ 1.102	+22.144
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	258.859	- .255	+ 8.368
Member Bank Reserves:	12/11/91		
Total Reserves Held	54.445	+ 1.480	- 5.615
Excess (Deficiency)	.562	- .359	+ .001
Net Free Reserves	.454	- .366	- .002
Monetary Aggregates †		‡ % Change Since 3 Months Ago*	% Change Since Year Ago
M1 (12/2/91)	901.9	+ 11.8	+ 8.3
M2 (12/2/91)	3,414.9	+ 2.3	+ 2.5
M3 (12/2/91)	4,156.3	+ 1.0	+ 1.0
Domestic Nonfinancial Debt (2nd Q'91)	10,735.3	+ 4.6	+ 5.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/13/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	4.15%	4.15%	4.21%
* Federal Agencies	4.57	4.61	4.72
* Municipal Notes–High Grade (34% Taxable Equivalent)	5.30	5.60	6.06
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	4.55	4.45	4.50

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	4.25%	Jan.	4.80%
15- 29 days	4.74	Feb.	4.55
30- 59 days	4.91	Mar.	4.45
60- 89 days	4.80	Apr.	4.40
90-179 days	4.75	May	4.35
180-239 days	4.60	Jun.	4.30
240-270 days	4.60		

‡ Industrial Paper–Prime			
30- 89 days	4.50%	†Federal Funds	
90-120 days	4.45	Effective Rate	4.38%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	3rd Q'91	$ 5,707r	$ 5,653r	$ 5,570r
Gross Domestic Product (1987 Dollars)*	3rd Q'91	$ 4,861r	$ 4,841r	$ 4,903r
Percent Change, Annual Rate	3rd Q'91	1.7r	1.4r	0.2r
Change in Consumer Prices*	Nov '91n	4.8%	1.2%	3.6%
Change in MH Cost of Living Index*	Nov '91n	6.0%	1.2%	4.8%
Change in Producer Prices*	Nov '91n	2.4%	8.4%	4.8%
Civilian Employment (Thousands of Persons) †	Nov '91n	116,758	116,967	117,386
Unemployment as % of Civilian Labor Force †	Nov '91n	6.8%	6.8%	5.9%
Personal Income*	Oct '91	$ 4,857	$ 4,847	$ 4,696
Leading Indicators Composite Index (1967=100) †	Oct '91n	145.5	145.3r	141.5
Industrial Production Index (1977=100) †	Oct '91	108.2	108.2	109.9
Net Change in Consumer Installment Credit †	Oct '91n	$ 0.80	$ 0.04r	- $ 0.11
U.S. Merchandise Trade Balance †	Sep '91	- $ 6.79	- $ 6.53	- $ 9.08
Plant and Equipment Expenditures*	4th Q'91	$ 540.9(a)	$ 539.5(a)	$ 530.1r
Private Housing Starts (Thousands of Units)*	Oct '91	1,096	1,021	1,026
New Construction Expenditures*	Oct '91n	$ 411.5	$ 407.5r	$ 434.6
Total Business Inventories †	Oct '91n	$ 812.8	$ 809.8r	$ 829.1r
Total Business Sales †	Oct '91n	$ 542.7	$ 540.9r	$ 554.6r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure r-Revised a-Anticipated

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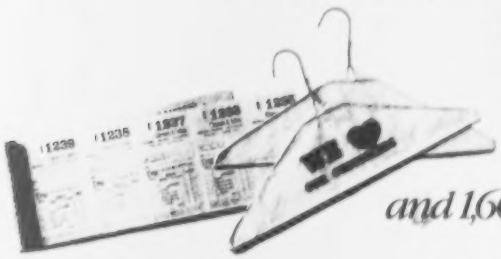

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